PRESENTATION FROM THE OFFICIAL COMMITTEE OF RETIREES OF THE CITY OF DETROIT TO THE HOUSE SPECIAL COMMITTEE

To: Chairman Walsh and Committee Members Poleski, McCready, Stallworth and Santana
From: The Official Committee of Retirees of the City of Detroit
Regarding Detroit's Recovery and House Bills 5572, 5574 and 5575

The Retiree Committee was appointed in August 2013 by the Bankruptcy Court overseeing the Chapter 9 case of the City of Detroit. The Retiree Committee represents the interests of retirees, their survivors and beneficiaries in the case on both pension and other post-employment benefits (OPEB). The Committee members have urged their constituents to vote for City's Plan of Adjustment (Plan) that depends on the State contribution and the companion funding from the Detroit Institute of Arts settlement to support the pension plans. A copy of the letter that was sent to all retirees from the Committee is attached hereto. We write to add the Committee's support for passage of House Bills 5572, 5574 and 5575--the legislation that provides for the State contribution to the Detroit pension funds.

WHO IS AFFECTED BY STATE CONTRIBUTION TO THE PENSION PLANS?

Based on recent reports of the pension systems, there are approximately 32,000 individuals who are entitled to benefits under the City's two pension plans. Approximately 87% of these individuals live in Michigan and the majority of the Michiganders live in the tri-county area. The cuts to retiree pensions and health care under the Plan especially without the proposed State contribution will have a deleterious economic impact on the retirees as well as the State of Michigan extending beyond the boundaries of the City of Detroit.

Based on the June 30, 2012 data, there were approximately 7,200 retirees in both systems over age 75. This is the population that is most affected by the depth of the proposed cuts, as there is no realistic possibility of their returning to employment to replace the pension and health care benefit cuts that will be lost if the State contribution is not approved.

Until the rulings in this bankruptcy case, the retirees and employees of the City understood that their pensions were protected by Pension Clause of the Michigan Constitution (Mich. Const. art. IX, § 24), which provides that:

> The accrued financial benefits of each pension plan and retirement system of the state and its political subdivisions shall be a contractual obligation thereof which shall not be diminished or impaired thereby.

As you know, the Retiree Committee and others have appealed the Bankruptcy court decision and if successful, retirees' pensions could not be reduced at all. Under the Plan, the Retiree Committee and the other appellants are being asked to dismiss their appeals, which the Retiree Committee will do, if a Plan, including the State contribution, is confirmed and goes effective.

HOW DOES THE STATE CONTRIBUTION AFFECT THE RETIREES?

The City's Plan has two alternatives for the treatment of participants in the General Retirement System (GRS) and. Police and Fire Retirement System (PFRS). These alternatives are compared on charts attached to the Committee's letter to retirees.

GRS Retirees
Under alternative A with the State contribution and the DIA settlement, most retirees will see their pensions reduced by 4.5% and their pensions will not be increased by any annual adjustment (called COLA in the City's Plan) for the rest of their lives and the lives of any survivor or beneficiary. Approximately 48% of the GRS retirees will have an additional reduction to their pension, called ASF Recoupment, that ranges from .01% to a cap of 15.5% of pension.

Under alternative B without the State contribution, assuming such a Plan can be confirmed, all GRS retirees will have their pensions cut by 27% and lose the annual adjustments for life and the lives of any survivor or beneficiary. 48% of the GRS retirees, subject to ASF Recoupment, will lose between .01% and 100% of their pensions.

Here is an example that demonstrates dramatically how the Plan affects a retiree with a $20,000 a year annual pension if the State Contribution is made and if it is not made:
Alternative A with State Contribution and DIA Settlement Proceeds

Retiree's Current Monthly Pension	1,748
Monthly Pension reduced by 4.5%	1,670
Minus Recoupment	271
New Estimated Monthly Pension	1,399

Alternative B without State Contribution and DIA Settlement Proceeds

Retiree's Current Monthly Pension	1,748
Monthly Pension reduced by 27%	1,,276
Minus ASF Recoupment	1,394
New Monthly pension	0

PFRS Retirees

Under alternative A with the State Contribution and the DIA settlement, the PFRS retirees will give up 55% of their annual adjustment or escalator (called COLA in the City's Plan). Under alternative B, these PFRS retirees will lose 100% of the adjustment. The pension benefits that are being cut are not extravagant to start. The average pension for a GRS retiree is $19,000. The average pension for a PFRS retiree is $32,000 and these uniformed retirees are not eligible for social security benefits through their service to the City.

During the chapter 9 case, the City cut funding for retiree health benefit by approximately 85%. The City's treatment of retiree health care under the Plan may allow retirees to receive current reduced 2014 level health care benefits for a much greater period than was projected under City's original offer. In addition, depending on the final allowed claims of certain other creditors, the amount available for retiree health care may increase. If the Plan is not approved, the cuts to retiree health benefits could be even more severe.

WHAT ARE THE BENEFITS OF THE PLAN FOR DETROIT AND THE STATE?

The retirees are making great sacrifices to ensure the successful emergence of Detroit from the chapter 9 case and the City's long term viability. The reduction of pension benefits on alternative A of the Plan and the health care benefits reduce the City's obligations by billions of dollars. In addition, if the Plan is confirmed and becomes effective, the Retiree Committee will give up the appeal to the Sixth Circuit Court of Appeals of the Bankruptcy Court ruling on the Pension Clause of the Michigan Constitution and other claims. The bargain depends on the Legislature's financial support represented by the pending bills.

Respectfully,
Terri Renshaw, Committee Chair

IMPORTANT DOCUMENT: PLEASE READ

LETTER FROM THE OFFICIAL COMMITTEE OF RETIREES TO ALL RETIREES

The Retiree Committee was appointed by order of the Court to represent the interests of City of Detroit retirees in the City's Chapter 9 bankruptcy proceedings. The Retiree Committee, as an entity, recommends a "yes" vote by you on the City of Detroit's proposed Plan of Adjustment ("Plan").

*A "yes" vote by you – in the judgment of the Retiree Committee and its professional advisors – is the course of action that is most likely to avoid the more severe cuts in retirement benefits that the City's Plan calls for if either of the two classes of retirees General Retirement System (GRS) and Police and Fire Retirement System (PFRS) vote no. As proposed by the City of Detroit **if the required majorities of Class 10 PFRS and Class 11 GRS retirees vote yes, and the Outside Funding proposed in the Plan is actually delivered by the State, the Foundations and the DIA, you will have much better chance to avoid the punishing cuts that the City's Plan requires if there is a "no" vote.** See the attached tables to illustrate the differences in pension benefits under the City's Plan.*

*The choice is yours and it is not an easy one. **But the Retiree Committee strongly recommends a yes vote on the Plan simply because it is most likely to save you the much more serious harm that will come with a majority of no votes.** The Retiree Committee supports a <u>yes</u> vote for this honest and simple reason.*

Respectfully,

The City of Detroit Retiree Committee

For more information, please email: detroitretirees@dentons.com or call the toll free Retirees' Hotline at 844-776-3475

MORE ABOUT ASF RECOUPMENT

As with most savings and annuity accounts, interest was awarded to each Annuity Savings Account at the direction of the Retirement System Trustees. The City has taken the position that the amount of interest attributed to your account in some years exceeded the actual earnings achieved by the pension fund's investments. Under the City's Plan, a GRS retiree will be subject to recoupment of a portion of the excess interest if he or she maintained an annuity savings account or took a distribution from an account between July 1, 2003 and June 30, 2013. If Classes 10 and 11 vote in favor of the Plan and the Plan is approved, the amount recouped will not exceed 15.5%. Once the reduction is determined, it will continue for the rest of your life and, if applicable, the life of your survivor beneficiary. The amount of the recoupment will be shown on your ballot for voting on the Plan.

THE PLAN'S TREATMENT OF HEALTH CARE BENEFITS

The City's treatment of retiree health care under the Plan, may allow retirees to receive current reduced 2014 level health care benefits for a much greater period than was projected under City's original offer. In addition, depending on the final allowed claims of certain other creditors, the amount available for retiree health care may increase.

COMPARISON OF PLAN TREATMENT FOR PFRS AND GRS

	ALTERNATIVE A – CLASS 10 AND 11 VOTING "YES"	ALTERNATIVE B – CLASS 10 OR 11 VOTING "NO"
PFRS	• You will receive 100% of your current pension payment and 45% of your future annual "escalators" (or COLAs) over your lifetime. • Elimination of 55% of your annual "escalators" or COLAs, amounts to approximately a 9.9% reduction in the value of your pension over your lifetime (and, if applicable, a survivor/beneficiary).	• You will receive 100% of your current pension but no COLAs over your lifetime. • Elimination of 100% of your annual "escalators" or COLAs, amounts to approximately an 18% reduction in the value of your pension over your lifetime (and, if applicable, a survivor/beneficiary).

	ALTERNATIVE A – CLASS 10 AND 11 VOTING "YES"	ALTERNATIVE B – CLASS 10 OR 11 VOTING "NO"
GRS	• In summary, you will receive 95.5% of your current pension but no "escalators" (COLAs) over your lifetime and you may be subject to Annuity Savings Fund (ASF) Recoupment that will be subject to a cap. • Specifically, these three reductions can apply: 1. You will have a 4.5% reduction in pension benefits. 2. Elimination of 100% of your annual "escalators" or COLAs, amounts to an average 14.5% reduction in the value of your pension over your lifetime (and, if applicable, a survivor or beneficiary). 3. ASF Recoupment applies to retirees who held an ASF Account between July 1, 2003 and June 30, 2013 or took a distribution from an ASF account during that period. Most retirees who are subject to this ASF Recoupment will have an additional reduction in their pensions from .01% to 10%. Although some retirees will have a greater reduction, the ASF Recoupment cannot be greater than 15.5% of your pension. • The amount of the total deduction for each retiree will be specified on the ballot to vote on the Plan.	• In summary, you will receive 73% of your current pension but no COLAs over your lifetime and you may be subject to Annuity Savings Fund Recoupment that is not subject to cap. • Specifically, these three reductions can apply: 1. You will have a 27% reduction in pension benefits. 2. Elimination of 100% of your annual "escalators" or COLAs, amounts to an average 14.5% reduction in the value of your pension over your lifetime (and, if applicable, a survivor or beneficiary). 3. ASF Recoupment applies to retirees who held an ASF Account between July 1, 2003 and June 30, 2013 or took a distribution from an ASF account during that period. Most retirees who are subject to this ASF Recoupment will have an additional reduction in their pensions from .01% to 10%. The ASF recoupment is not capped. It may be as high as 100% for some retirees. • The amount of the total deduction for each retiree will be specified on the ballot to vote on the Plan.